FIRST 5 CALIFORNIA
CHILDREN AND FAMILIES COMMISSION

January 26, 2011

Holiday Inn Capitol Plaza
300 J Street
John Q Ballroom, 16th Floor
Sacramento, CA 95814

MINUTES

Agenda Item 1 – Call to Order and Chair's Welcome

Chair Jennifer Kent called the meeting to order.

Commissioners Present: Jennifer Kent, Chair
Molly Munger, Vice Chair
Conway Collis
Patrick Duterte
Joyce Iseri
Casey McKeever
Maria Minon, M.D.

Ex Officio Member Present: Scott Carney

Jennifer Kent, new Commission Chair, thanked Governor Schwarzenegger for her recent appointment and welcomed members of the commission in attendance.

Chair Kent commented on the meaningful work of the Commission for children ages 0 to 5 and the numerous challenges related to the state budget and core programs that serve California's most vulnerable populations. Chair Kent stated she looks forward to chairing the Commission for the next few years.

DISCUSSION: None.

PUBLIC COMMENT: None.

Agenda Item 2 – Executive Director's Report

Kris Perry, Executive Director, commented on the state's $25.8 billion budget deficit during these difficult economic times and provided information and the following updates:

- The Governor's 2011-12 Budget proposes to extend tax hikes, redirect $1 billion in Proposition 10 funding reserves to fund Medi-Cal health services for children, and would allow 50 percent of future Proposition 10 revenues to fund General Fund-supported early childhood services.
- In addition to the proposals outlined in the Governor's Budget, First 5 California is also being asked to contribute $182 million to the Healthy Families and Early Start programs.

- At the October Commission meeting, Commissioners were updated on the status of cuts to the CalWORKS Stage 3 Child Care program. Since that meeting, Ms. Perry met with legislative leadership to help find solutions to work through those cuts. Ms. Perry reported that county commissions have committed a significant amount of funding in individual counties to help prevent program closures.
- Ms. Perry expressed the importance of working together, to the greatest extent possible, to protect Proposition 10, protect the vulnerable children it serves, and keep the safety net intact.
- Ms. Perry stated that during these difficult times, health and education programs are competing against each other. In addition to the $1 billion in proposed cuts to the Medi-Cal program, more than $750 million in cuts to child care and early education programs are proposed in the 2011-12 Budget. This equates to nearly $2 billion in cuts in direct services to children 0 to 5. In addition, the federal government has decided that it cannot continue to pay for the additional spots for Head Start and Early Head Start that it started funding two years ago.

<u>CARES Plus</u>

- More than 20 states have adopted this quality rating improvement system.
- Along with California, many states have chosen to use the CLASS assessment tool to measure teacher effectiveness.
- There is one component of five that is not yet available in Spanish.

<u>Public Education and Outreach Efforts</u>

Ms. Perry reported great utilization of First 5 California's parent website with more than 2 million hits within the last year.

Ms. Perry announced that the First 5 California and Water Cooler Joint Conference will be held at the Sheraton Grand Hotel on March 1-2, 2011. The Conference will focus on policy and advocacy, with acclaimed keynote speakers who will address important topics such as early learning, science, and research.

<u>Acknowledgements and Awards</u>

First 5 California received a State Agency Recognition Award (SARA). The SARA Awards, hosted by the Department of General Services, honor state departments for outstanding achievement in small business advocacy. First 5 California received the most notable improvement in small business contracting for its effort in achieving an 86.15 percent small business participation, which far exceeds the legislative mandate of 25 percent. First 5 California not only recognizes the critical role veterans and small businesses play in the education and health of California's young children, but also the importance of supporting California's small business community.

> **DISCUSSION:** Commissioner McKeever asked what service or material was not available through the CLASS assessment tool and how was that limiting access to Latino communities. Ms. Perry said the CARES Plus program is open to everyone. However, it has been brought to First 5 California's attention that one of the five components that make up the core program is not translated into Spanish. Although First 5 California has had several discussions with the University of Virginia, which is currently building the Spanish video library, it is not extensive enough to offer it to

our CARES Plus participants at this time. Ms. Perry said she was very optimistic that as the first round of CARES Plus ends, the library would be available in Spanish.

PUBLIC COMMENT: Joel Gordon, Dean of Early Childhood Education at Santa Rosa Junior College, spoke highly of the CARES program and the profound impact the program has had on the early care and instruction children are receiving and the positive outcomes as a result of the program. Mr. Gordon expressed concerns regarding the CLASS video library not being available in Spanish, as there are many child care providers whose primary language is Spanish. He recommended postponing CARES Plus until the video library is available in Spanish.

Jennie Tasheff, Executive Director of First 5 Sonoma, expressed that the CLASS assessment tool is very promising and she is pleased how it focuses on the relationship between parent, teacher and child. However, she expressed concern with the lack of equity in the core elements. Ms. Tasheff recommended dropping the one core requirement that prohibits the participation and/or postpone that requirement until next year.

Chair Kent asked if First 5 California has asked the University of Virginia if they are allowing other entities to take the videos and have them transcribed. Ms. Perry said First 5 California has explored alternative options. However, the translation of video is so expensive that what they are doing in lieu of that is literally building a Spanish library of videos as it is faster and more economical. First 5 California shares the very same guiding principle that everyone should be included and everyone can be included. There is one component of five that is not yet available in Spanish. The investment that is being made in the CLASS and supporting materials will greatly expedite their library to be developed, not only for Californians in Spanish, but for the whole nation. Although postponement or changes are options, Ms. Perry explained to Commissioners that because First 5 California sent out invitations to apply, any change to the Request for Application (RFA) would result in stopping that RFA and starting over with that change included. Ms. Perry proposed thinking of ways to develop a companion or complimentary effort during this cycle that would be in addition the current teacher signature program to address these concerns. This would allow the current process to move forward while enhancing what we have rather than stop where we are.

Commissioner Collis asked what the implications would be for reissuing the RFA and how many people would be affected. Ms. Perry explained that 37 counties applied for $12 million a year for three years to help them support teacher training and effectiveness. First 5 California has already been in the development process for over a year, the application process is complete, and we are three weeks away from issuing funding. It would require significant time to stop and restart the process.

Ms. Perry said First 5 California is committed to continuing to expedite a process where we collectively identify the problem, the number of people truly impacted, and the solution that could address it without derailing a process that has been underway for several months.

Commissioner McKeever asked about potential alternatives that could be utilized in lieu of the produced videos and how long will it take to get the videos translated. Ms. Perry said the translations would be complete in one to two years from now, and although the substitution idea is logical and reasonable, it would create new challenges as it would change the RFA.

Chair Kent requested First 5 California to meet with the county commissions who have raised concerns.

Vice Chair Munger expressed concern regarding running a program for early education teachers that is not very friendly to Spanish speaking teachers. She said that First 5 California was right to pursue CLASS as it is the highest quality program. Vice Chair Munger said that First 5 California has an opportunity to make a national contribution to fix CLASS to make it work for all teachers.

Agenda Item 3 – Governor's Fiscal Year (FY) 2011-12 Budget Update
Chair Kent introduced representatives from the Department of Finance (DOF), who explained the Governor's current budget proposal.

- Successive years of unprecedented fiscal crisis has resulted in a deficit of more than $25 billion.
- The Governor's proposal is based on $12.5 billion expenditure reductions and over $12 billion in revenues, some of which are extensions of existing revenues. There is $1.8 billion in one-time solutions.
- $1 billion of Proposition 10 funds are part of the $12.5 billion reduction in state expenditures. Further reductions within the $12.5 billion include:
    - $1 billion in higher education
    - $1.7 billion to the Medi-Cal program
    - $0.5 billion in state operations
    - $1.5 billion to the CalWORKS program
- Specifically, the Governor's proposal would, upon voter approval, shift $1 billion in both state and local Proposition 10 funding reserves to fund Medi-Cal health services for children through the age of five. The proposal would direct 50 percent of ongoing Proposition 10 revenues into a newly established account to fund early childhood services.
- The Administration is not stating that First 5 programs are not valuable, but it believes during these difficult times voters should have an opportunity to reprioritize funding allocations.

DISCUSSION: Commissioner Iseri voiced concern on the issue of supplantation. Robert Ducay, DOF representative, explained that the language that would be put before the voters would strike the supplantation clause from the California Children and Families Act as to avoid any legal ramifications.

Commissioner Duterte asked if the funding allocations to the Managed Risk Medical Insurance Board (MRMIB) and the Department of Developmental Services (DDS) were included within the $1 billion. Mr. Ducay explained that the $1 billion would be allocated to a special account to fund Medi-Cal services for children through the age of five. If the State Commission chooses to contribute funding to MRMIB and DDS, and as a result depletes its reserves, DOF will look to the counties to make up that difference.

Commissioner McKeever asked if there are potential liability issues regarding contracts that First 5 California has already entered into and if those costs have been accounted for. Mr. Ducay said there is always the risk of legal challenges. He noted that this particular proposal does not account for those costs.

Commissioner Collis asked to what extent First 5 California's state mandate includes advocacy for children. He asked if First 5 California had the ability to play a role under the enabling initiative by suggesting and advocating other revenue possibilities. Ms. Gauthier said if you take the enabling Proposition 10 as a whole, it is a vision that state and local commissions would be advocacy organizations for children's issues 0 to 5. There is a fine line with regard to the State Commission and if a legislative measure is actually put on the ballot in June, then the State Commission cannot use any of its funds or resources to advocate for or against a pending ballot measure. Commissioner Collis clarified that he was not suggesting that First 5 California play a role in the ballot initiative, but rather utilize First 5's role as advocates for children to address the legislative process.

PUBLIC COMMENT: Lani Schiff-Ross, Executive Director of First 5 San Joaquin, requested clarification as to where local reserve allocations come from. Mr. Ducay indicated that fund balance reserves were based on a FY 2008-09 audit submitted by First 5 county commissions to the State Controller's Office. Ms. Schiff-Ross said a negative reserve of approximately $4 million has been reported over the last few years. She asked if she could assume that the State Commission would reimburse half of the reserves. Chair Kent asked how First 5 San Joaquin ended up with deficit spending. Ms. Schiff-Ross explained that although reporting guidelines require commissions to report on their legal commitments and although the report reflects a negative reserve, there is no deficit spending.

Vice Chair Munger asked why 100 percent of the reserves are being taken from the State Commission as compared to half of the reserves being taken from the counties, when both entities are unable to operate without one year of funding in reserves to move forward with their programs. Mr. Ducay explained that the Governor's proposal built in the assumptions on what remained in state fund balances with the intent to reach the target of $1 billion. DOF is open to negotiations regarding the funding split and realizes that it would be impossible to operate with a zero balance at the beginning of the fiscal year.

Chair Kent highlighted the fact that DOF only has the numbers that were given to it. Since DOF based Proposition 10 funding reserves on outdated audit reports, Chair Kent expressed the importance of informing DOF on actual reserve amounts and funding that has already been encumbered.

With the Governor's proposal and funding requests being brought before the Commission, Commissioner Duterte expressed concern that First 5 California would have to shut down as there would be no funding left to operate, let alone run any programs. Ms. Perry confirmed there was not enough funding to cover the external requests and internal decisions. Commissioners would be faced with difficult decisions where they would need to disencumber and officially stop programs in First 5 California's spending plan to meet other obligations if they chose to do so.

Julie Gallelo, Executive Director of First 5 Yolo, explained that out of the $1.9 billion in county commission reserves:

- more than $934 million is already encumbered in current contracts
- $626 million has been allocated by county commissions (not yet encumbered)
- $350 million or 18 percent of the $1.9 billion has not been allocated or encumbered and is the actual total reserves for county commissions

Agenda Item 4 – Brain Science and Early Learning
Chair Kent introduced Dr. Ross Thompson, with the Department of Psychology at U.C. Davis, who presented the Commission with the latest national research on brain science and early learning.

- There are three reasons there is an unprecedented public interest in early childhood development:
    1. The brain develops significantly in the early years
    2. Early childhood experiences provides the foundation for school readiness
    3. Early development significantly sets the stage for lifelong health, achievement, and well-being
- Developmental neuroscience, developmental psychology, education reform, and the economics of human capital formation are yielding a common focus on development in the preschool years.
- The quality of brain development in the early years establishes a strong or weak foundation for subsequent growth.
- The amazing growth of the brain permits the remarkable accomplishments in early learning that prepare children for school, and children's early experiences of learning provoke the brain's connections over time.
- Young children's social and emotional functioning affects their capacities to learn, and learning success contributes to their sense of competence and well-being.
- Brain development promotes growth in social and emotional capabilities, but a child's emotional well-being also influences the brain's functioning and its continued healthy development.
- The achievement gap begins early. According to the National Longitudinal Study of Youth, the achievement gap in math by family income is apparent at age six, and widens as children proceed through primary and secondary grades.
- Differences in vocabulary growth by family income begin to appear as early as 18 months, when word learning develops most rapidly. These differences in the amount of vocabulary are markers for other differences that impacts early intellectual growth.
- Early learning success depends on the quality of the early education program and the teachers in that program. The essential elements of early learning are:
    - Cognitive skills (letters, numbers, problem-solving, language)
    - Personal skills (motivation, curiosity, persistence, self-confidence, self-regulation of behavior and emotions)
    - Social skills (getting along with teachers and peers, social understanding, developing close relationships)

- Cognitive, social, and emotional development are deeply interdependent in the early years.
- Early childhood stress influences developing brain architecture and can also damage parts of the brain associated with learning and memory.
- A high quality early education program with well-prepared teachers and staff is important to early learning and school readiness because it:
  - Supports self-regulation skills that are neurobiologically very immature
  - Guides the growth of reasoning and problem-solving skills as brains develop
  - Offers individualized learning experiences suited to the child's readiness to learn
  - Motivates enthusiasm for early learning
  - Instills self-confidence
  - Buffers stress and assists in emotional regulation
  - Enhances young children's self-concept as competent learners
  - Provides emotional security
- Early learning depends more on the support of a quality program and staff until developing minds and brains enable more self-regulated learning.
- There is now evidence that society's investments in early learning programs can be cost-effective, when considering the benefits to children and society.
- Two major longitudinal studies that looked at long-term outcomes of children in high-quality early childhood programs -- the Perry Preschool and the Abecedarian projects -- have clearly shown that there is a big return on investment that ranges from $4.00 to $16.00 for every dollar invested in the program. The majority of those returns are to society, not the individual.
- Dr. Thompson quoted James Heckman, Nobel Prize laureate and University of Chicago economist, by saying "On a purely economic basis, it makes a lot of sense to invest in the young. Early learning begets later learning and early success breeds later success."

DISCUSSION: Commissioner Duterte asked about the cost benefit of investing in early learning programs. Dr. Thompson provided background information on the Perry Preschool program. He explained that the Perry Preschool program was initiated several decades ago. It was one of the earliest wraparound comprehensive early childhood intervention programs involving high quality early childhood education services for children. A longitudinal study, which tracked these children over the years into adulthood, found that not only was the project effective as an educational intervention, but it also demonstrated lifetime cost benefits that included savings in welfare assistance, special education, and the criminal justice system as a result of significantly lower rates of crime and delinquency.

PUBLIC COMMENT: None.

Agenda Item 5 – First 5 Association of California Report
Julie Gallelo, Executive Committee Member of the First 5 Association, presented on behalf of the First 5 Association and provided an update on Association activities and budget issues of concern to county commissions.

- DOF's calculations regarding county commission reserves are numbers that do not reflect actual funds available.

- County commissions' audited fund balances include funds in current and multiyear contracts and funds approved by county commissions that will be committed when those contracts are finalized.
- The Association is working with the Legislature to ensure they understand if reserve funds are swept clean, as the budget proposes, contracts will have to be terminated in order to make funding available. This would include terminating contracts for safety net services that county commissions are currently funding to plug holes caused in previous year's budget cuts.
- County commissions do understand the crisis that the state is facing and want to help be a part of the solution, but not at the cost of virtual elimination of First 5.

Ms. Gallelo also reported that in response to a request from Assembly Speaker John Perez and Senate President Pro Tempore Darrell Steinberg, 36 county commissions allocated $35.4 million to the CalWORKs Stage 3 Child Care program to help prevent program closures until the Legislature has time to reinstate the funding. In many of the smaller population counties, commissions worked with providers to help Stage 3 families find alternate care in Head Start or other affordable programs. This situation was complicated by a court order that required the California Department of Education to continue Stage 3 services through December 31, 2010. Although First 5 county commissions were not needed during that time, many commissions provided loans while providers waited for state funds to flow.

DISCUSSION: None.

PUBLIC COMMENT: None.

Agenda Item 6 – Legislative Report

Marsha Jones, Chief Deputy Director, provided a brief update on the State Budget and key legislation introduced in the regular legislative session.

- On January 10, 2010, Governor Brown unveiled his budget proposal.
- First 5 California has worked on being a part of the budget solution over the past four years, while also balancing its responsibilities to ensure hard-to-reach and low-income children are served and have access to First 5 California programs.
- The State Budget includes language that balances the Managed Risk Medical Insurance Board and the Department of Developmental Services budgets with Proposition 10 dollars.
- Speaker Perez introduced legislation, Assembly Bill (AB) 1, to restore CalWORKs Stage 3 Child Care services that enable parents to transition from welfare to work. AB 1 will be used as a vehicle, if necessary, to allocate existing transition funding until the budget is enacted and the program is officially restored.

DISCUSSION: Commissioner McKeever inquired how the Governor's budget proposal would affect First 5 California. Ms. Jones said that over the fiscal years, First 5 California had been asked to help balance the Healthy Families budget and now the budget proposal is looking to First 5 to fill a $1 billion gap in the Medi-Cal program. These are difficult times and First 5 California is working hard to help find solutions, while also balancing its own responsibilities.

PUBLIC COMMENT: None.

Agenda Item 7 – Financial Plan FY 2010-11 and 2010 Financial Audit Report
Terry Miller, Chief of Administrative Services, provided the State Commission a report on the FY 2009-10 Financial Audit and an overview for First 5 California's FY 2010-11 Financial Plan.

First 5 California's Funding Structure
The state collects a total of 0.87 cents in taxes for each pack of cigarettes sold. Taxes are also collected on the sale of other tobacco products, which is calculated as a percentage of the distributor's wholesale costs, a rate that is calculated annually.

The Board of Equalization (BOE) collects tobacco tax revenues and transfers funds to accounts designated by statute. Fifty cents of the 0.87 cent tobacco tax revenue is directed to the California Children and Families Commission Trust Fund for First 5 California to oversee and distribute.

Board of Equalization Adjustments
By statute, the BOE is authorized to make adjustments to the Children and Families Trust Fund before transferring revenue to the designated Proposition 10 accounts. These adjustments include:

- BOE's costs for tax collection, enforcement, and administering the fund;
- Statutory backfill to reimburse other programs to offset the revenue decrease directly resulting from the additional taxes imposed by Proposition 10; and
- Other adjustments to reconcile accruals to actual expenditures and general retailer payment transactions.

In FY 2009-10, the amount of these adjustments totaled approximately $33.5 million. The BOE provides to the State Controller's Office (SCO) the amount of revenue to be transferred to these accounts on a monthly basis. By statutory direction, 80 percent of the monies available to transfer are based on birthrate data. As either a legal public entity separate from the county or as an agency of the county with independent authority, each county commission has independence in the administration of its programs and funding to meet local needs.

The remaining 20 percent of funds are directed to First 5 California's six state accounts: Mass Media Communications, Education, Child Care, Research and Development, Administration, and Unallocated. Each of these accounts are individual funds with defined purposes in statute for their use. First 5 California tracks and reports on the funding commitments approved by the State Commission and the Executive Director, as authorized by the State Commission

FY 2009-10 Financial Audit Report
First 5 California funds are audited annually. This process is relatively complex because the auditors must review the internal controls, policies and practices of three governmental agencies: First 5 California, the BOE, and the Department of General Services. Ms. Miller was pleased to report that the FY 2009-10 audit did not identify any reportable internal

control or compliance weaknesses. The audit is posted on First 5 California's website for public viewing.

In February 2009, the Governmental Accounting Standards Board released Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Statement 54 substantially alters the focus and terminology used for fund balance reporting. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Beginning this fiscal year, all governmental agencies will be required to adhere to Statement 54 compliance requirements. First 5 California's FY 2010-11 audit will reflect compliance with these new reporting standards.

Revenue

First 5 California tax revenue consists of cigarette taxes collected, interest income earned on funds deposited in the Surplus Money Investment Fund, refunds from reverted appropriations, and unclaimed checks escheated to the issuing fund.

Since 1999-2000, First 5 California's revenue has declined 29 percent and the projected revenue shows a continued projected decrease.

First 5 California revenue is reported to the SCO by the BOE and transferred to the accounts by the SCO on a monthly basis with a lag of approximately one month. The full fiscal year revenue is not actualized until the month following the close of a particular fiscal year. The amounts of monthly revenue transferred into First 5 accounts varies and is unpredictable, with the greatest variability occurring in the second quarter of the fiscal year. This revenue fluctuation does influence First 5 California's fiscal policies and practices.

Leveraged Funds

In FY 2009-10, First 5 California leveraged over $152 million in local and federal dollars for statewide efforts with approximately $72.5 million in First 5 California funds.

Revenue Projections

The Department of Finance (DOF) projections historically demonstrate that tobacco tax revenue is declining. DOF's revised tax revenue projections can change significantly between the January release of the Governor's Budget and the release of May Revise figures.

First 5 California relies on tax revenue projections to develop its Financial Plan. Any significant shift in tax revenues received will impact the Financial Plan. The rate of projected tax revenue decline is caused by many factors, which include federal legislation, state initiatives, First 5 California's public education and outreach efforts, and comprehensive smoking cessation programs to reduce tobacco use.

Financial Plan

Consistent with the statutory construction, the Financial Plan is structured to ensure First 5 California tracks the revenue and expenditures in each individual account by fiscal year.

With the passage of AB 1422 (Bass, Chapter 157, Statutes of 2009), funds not needed in any account can be transferred to the Unallocated Account upon State Commission approval. However, there is no return provision to the accounts once that transfer is made.

As part of its fiduciary responsibilities, First 5 California has instituted budgetary controls to ensure it can meet all of its current and future year obligations. First 5's accounting method is a modified accrual method. This includes utilizing encumbrance accounting to reserve funds at the beginning of each fiscal year for current year obligations and commitments. These obligations can be encumbered only if there is available cash in the accounts to cover the obligation. At year-end, the encumbrances are closed out against the fund balance. Any over expenditure of the accrued amount is paid out and recorded in the current year.

First 5 California does not receive current year revenue at the beginning of each year. Revenue flows in monthly in amounts that vary with a lag of approximately one month following the month the revenue is collected.

First 5 California has relied on carryover funds to implement an encumbrance accounting system and to ensure it can meet current year obligations. Ms. Miller pointed out that to sustain First 5 California's current system of budgetary control, it must maintain adequate carryover fund balances to encumber its fiscal year obligations on July 1 of each fiscal year. This ensures that First 5 California can pay on its current year obligations, regardless of the revenue shifts that occur monthly. First 5 California's funding obligations typically cover multiple years. Further, in most contracts and agreements, there are roll-over provisions that allow the entity to transfer unexpended funds from one year to the next through the term of the agreement. Any single action in the current year will impact all years on the Financial Plan, as the balances roll from year to year to fund multi-year projects.

DISCUSSION: Commissioner Duterte asked whether the State Commission has moved money between accounts. Ms. Miller said yes. She indicated that the State Commission has the authority to redirect funds from a particular account to the Unallocated Account for use for any purpose in the Act.

Commissioner McKeever asked if there was a minimum reserve required at the beginning of the fiscal year to permit the programs to be operated without disruption. From a fiscal perspective, Ms. Miller said First 5 California would have to have the funding to carry the obligations of fully executed contracts at the beginning of each fiscal year for the entire year.

PUBLIC COMMENT: None.

Agenda Item 8 – State Budget Solutions
8a – Early Start Program Funding Request
Chair Kent announced the nonparticipation and removal of Commissioner Minon from this item due to a conflict of interest.

Chair Kent introduced Terri Delgadillo, Director of the Department of Developmental Services (DDS), who requested First 5 California continue funding the Early Start Program.

Last year, Governor Schwarzenegger vetoed $50 million for the Early Start Program and recommended the DDS seek funding from First 5 California. In April 2010, the State Commission approved up to $50 million to pay for new regional center early intervention services administered by the DDS provided to new children ages 0 to 5 through the Early Start Program from July 1, 2009, through June 30, 2010.

The regional centers that operate the program served over 22,000 children who otherwise would not have received services. As the fiscal year nears an end, the DDS will be left with a hole in its budget and may be forced to end services to a large number of clients.

- DDS provides services to 21 Regional Centers through three basic programs:
  - Early Start – for children 0 to 2 at risk of developmental delays.
  - Lanterman Act – for individuals 3 and older who have lifelong developmental disabilities (20% of Early Start children qualify for this program).
  - Prevention Program – for children previously served by Early Start who no longer qualify because of stricter eligibility requirements.
- In the current year, California's 21 regional centers project they will serve approximately 80,000 infants and toddlers ages 0 to 5.
- Only about 20% of the 80,000 served by Early Start will stay in the regional center system after age 3.
- Those over age 3 are served under the Lanterman Act, under which all developmentally disabled Californians have a right to services.
- Those under age 3 who have significant developmental delays or are at risk of a developmental delay or disability receive services through the Early Start Program.
- Those under 3 whose delays are not significant enough to qualify for Early Start are referred to a new Prevention Program for assessment and referral to community resources to the extent they exist.
- DDS does not consider the Commission's contribution to be supplantation because the previous funding ended when the Governor vetoed the $50 million last year, only children new to the program will be covered, and the program is growing at a rate that exceeds the request.

  DISCUSSION: Chair Kent asked Ms. Delgadillo to elaborate on funding cuts to the DDS's overall budget. Ms. Delgadillo explained that last year, the DDS was cut over $334 million resulting in drastic changes to supports and services. In addition, there was a 4.25% payment decrease for providers. Ms. Delgadillo indicated that DDS was facing an additional $750 million in cuts to the General Fund.

  Commissioner Iseri asked if the total requested $50 million will go toward the Early Start Program. Ms. Delgadillo said the DDS anticipates the $50 million will be utilized by Early Start, unless the Commission directs DDS to allocate part of that funding to the Prevention Program. She indicated that the Early Start Program provides direct services in line with First 5 California goals.

  PUBLIC COMMENT: None.

8b – Healthy Families Funding Reuest

Chair Kent introduced Janette Casillas, Executive Director of the Managed Risk Medical Insurance Board (MRMIB), who requested First 5 California continue funding the Healthy

Families Program (HFP) to pay for health care premiums for children 0 through 5 who are new enrollees to the HFP.

Recently appointed in January 2001 as Executive Director of MRMIB, Ms. Casillas has been at MRMIB for 12 years and is fully aware of the budgetary grants First 5 California has provided to the HFP over the course of the years and extended a gracious thank you. First 5 California gave the HFP a grant in FY 2008-09 in an amount up to $16.75 million. The HFP spent that grant and is now in the process of transferring (direct transfer) to First 5 California accounts just over $4 million in unspent funds of that grant. That grant covered just over 74,000 children 0 to 5 years of age. In FY 2009-10, First 5 California gave assistance to the HFP by providing a much larger grant in the amount of $81.4 million. Ms. Casillas thanked First 5 California for its assistance with that grant. She said the HFP recently closed out the reporting period for that grant, which revealed that First 5 California had covered over 217,000 children ages 0 to 5. The HFP is in the process of doing its audit reconciliation through a contracted independent auditor (Mercer) that will start next month to see if all those funds were spent. She believes they were not. Ms. Casillas said the HFP believes that there will be some unspent funds coming back to First 5 California, possibly somewhere in the neighborhood of $20 million dollars.

As a result of the HFP's current year budget deficit, Ms. Casillas requested the State Commission to approve a third year of funding to the HFP in the amount of $81.4 million to cover approximately 208,000 children 0 to 5 years of age.

DISCUSSION: Vice Chair Munger asked for clarification on the amount being returned to First 5 California. Ms. Casillas said the amount was just over $4 million.

Chair Kent said, for purposes of anyone that may have not tracked the grants and discussions between First 5 California and the Healthy Families Program prior to this request, these funds are for children 0 to 5 years of age that are new enrollees to the HFP. Reimbursement arrangements are then worked out on the money that is not spent.

Ms. Casillas concurred with Chair Kent. She said the 0 to 5 population that the HFP asks First 5 California for assistance in funding are not children the HFP is currently funding with General Fund dollars. She noted that HFP has made it very clear in the original arrangement that First 5 California dollars are not permitted for supplantation. HFP tracks the enrollment of every child. Funding specifically is allocated to all children 0 to 5 years of age who are new enrollees, and that were not otherwise covered through General Fund dollars or other funds. Ms. Casillas indicated that was actually part of the purpose of the independent audit.

Commissioner Iseri asked if HFP would stop serving those children if it did not receive the $81.4 million. Ms. Casillas said that if funding in the amount of $81.4 million was not received, HFP would have to look at other alternatives for their program. She said that she was not sure what those alternatives would be because in the past, the alternative was to close the program down to new enrollment in general. As a result of the Affordable Care Act, HFP understands that there are maintenance of effort requirements, which may or may not allow HFP to actually close the program to new enrollment.

Ms. Perry thanked Ms. Casillas for mentioning the return of funds. She said she was surprised and happy to hear that perhaps there would be another opportunity for HFP to return unneeded funds. Ms. Perry said it would be helpful in understanding whether or not $81.4 million is really an accurate amount to request. Ms. Perry asked Ms. Casillas if HFP is finding that the amounts being requested might be a higher number than what is actually needed. Ms. Perry said First 5 California is trying very hard to find the right number for everybody. She asked Ms. Casillas what she thought that real number is.

Ms. Casillas said that when HFP closed out the reporting period for FY 2009-10, based on enrollment assumptions, HFP actually served 217,500 children. She indicated that although the caseload had dropped and HFP came in below that amount, caseload now is growing. As a result, she said she felt compelled to stick with their fiscal forecaster's projected amounts, while continuing to work with the Department of Finance and reviewing enrollment trends.

Chair Kent asked if it was fair to say that the $82 million is based on an overall estimate that gets approved through various fiscal reasons, and then the Legislature approves the budget based on that estimate, which includes both caseload, costs, and rates for contracts. She stated in a simple world, HFP would present a budget with an estimate of $150 million. They approve it. Of the $150 million, this $82 million is a part of that budget. Now it may be that HFP does not need the full $82 million, as we are making sure the kids being served are new enrollees and otherwise eligible for the 0 to 5 portion and those funds are being kept separate. However, if and when that all settles out and HFP discovers that it needs only $60 or $70 million, then those amounts would have to be settled out at the end of the year. Ms. Casillas confirmed Chair Kent's statement.

Commissioner Collis asked if a motion could be up to the $82 million.

Chair Kent asked for clarification regarding reimbursement on a quarterly basis and if the State Commission votes to approve the funds up to $82 million, would HFP need funding all at once or is there a way to check those funds over a period of time.

Ms. Casillas stated HFP's budget is also funded with the managed care tax and the MCO tax, which HFP uses first. The allocation between July 1 of this fiscal year up until now has been used. Ms. Casillas said HFP probably did not need the $82 million all in one check, but they are ready and in need.

Vice Chair Munger had a question about the approximate $20 million that HFP thinks it will be returning for FY 2009-10. Ms. Casillas stated the fiscal year as 2008-09.

Vice Chair Munger said there was $4 million being returned to First 5 California. Ms. Casillas confirmed that amount. Vice Chair Munger said "and now there is an additional $20 million for 2009-10." Ms. Casillas said "yes."

Vice Chair Munger stated that the amount was a combined total of $24 million. She questioned the amount of $81.4 million requested by HFP. She said if the HFP is going to return $24 million to First 5 California, then $57.4 million is what the HFP really needs.

Ms. Casillas said the $4 million, which HFP is doing a direct transfer to First 5 California accounts this week is post audit. The auditors have already come in and identified that number. The audit for FY 2009-10 will begin on February 1. Ms. Casillas said she does not know how long it will take for the auditor to conclude what that amount of money will be, but she believes it is going to be around $20 million based on what she has seen from expenditures made so far. She said it is more about the timing of having those funds.

Vice Chair Munger asked if the State Commission approved $57.4 million now and if additional funds were needed, HFP could come back to the Commission for that small difference. She stated that the $57 million that could be approved today would keep HFP from running out of money and would hold them whole until the audit is completed and that $20 million is found.

Chair Kent said that HFP cannot roll over funds. They would have to return unspent funds to us. If the HFP does not have the money as it is appropriated in their budget, HFP officially is in a deficiency situation if it does not have the full appropriation authority up to that amount.

Vice Chair Munger said it was helpful to know that there is really a $24 million offset to the $81.4 that we are being asked to approve today. Ms. Perry noted that offset would be realized in about a year from now.

Commissioner McKeever asked for clarification on the maintenance of effort and Affordable Care Act. He asked if the money is not forthcoming, potential beneficiaries may or may not be put on waiting lists or be denied services. He asked Ms. Casillas if there are some grounds of disagreement among various people in how they read the Act.

Ms. Casillas said they are attempting to seek clarity on that issue. In the Affordable Care Act when they talk about maintenance of efforts, they basically say that you cannot change eligibility rules that were in effect at the time that the Affordable Care Act was passed. However, it goes beyond that and also talks about policies, procedures, and more importantly, methodologies that were in place before the Act was signed. We have in our Healthy Families regulations a methodology for a rule about how we go about putting children on a waiting list if there are insufficient funds for the program and/or having to disenroll children from the program due to insufficient funds. The question remains, is that to be interpreted as a methodology that was in place before the Affordable Care Act was signed? We believe, through a letter we have received from many members of the congressional leadership that the intent of that was not so much about the methodologies, but more about the fact of an enrollment waiting list. For example, if you had a waiting list in place before the Act was passed then fine, but if you did not then you cannot. It is a very fine line.

MOTION/ACTION: Commissioner Collis moved to approve funding of up to $50 million in FY 2010-11 to provide funding to the Department of Developmental Services for new regional center services provided to new children ages 0 through 5 in the Early Start Program, the Prevention Program, and pursuant to the Lanterman Developmental Disabilities Services Act. The motion was seconded by Chair Kent.

DISCUSSION: Commissioner McKeever asked if the motion does not apply to FY 2011-12. Chair Kent said no. The motion is just for FY 2010-11.

Commissioner Duterte said that as it stands right now, looking at the presentation on the budget with the encumbrances, he does not know if he can vote for any of the funding requests at this point. He said he realizes First 5 California is part of the budget solution and that we have to come up with some amount of dollars that actually helps resolve the problem. However, for the State Commission to vote aye on all these proposals would put this Commission at risk and to the services it has to the counties and the children being served. Commissioner Duterte said he certainly supports the idea of looking at potential solutions to solve the budget because everybody is going to have to take a hit. He said First 5 California is going to take a hit and so are the children we serve. It is going to affect the counties so we all have to participate in this thing. Based on the way the budget works, First 5 California needs at least a reserve that starts us off in the year so we can fund the priority programs that we feel as commissioners are important. Commissioner Duterte said that First 5 California can have a certain number of dollars available, but it hasn't had those discussions or any analysis on the issue. If the Commission votes aye on all of these proposals today, it is basically saying that we do not need this Commission. He said that is basically the decision that was being put in front of them and that he would have to vote no at this time, but would direct staff to come back relatively quickly with some proposals of how we be a part of the budget solution.

Vice Chair Munger said she would not be able to support this motion either. She indicated that her reasons were somewhat different as she felt the Commission would be able to give money today and still maintain a reserve that would work. She expressed that she felt more comfortable meeting at least some of the requests presented to the Commission. Based on the numbers that were provided, Vice Chair Munger said she does not see that the Commission has enough money to meet all of the requests and still be responsible for the survival of the Commission. Therefore, she could not support the total request. Vice Chair Munger suggested the Commission have a discussion that would somehow end up leaving First 5 California with a healthy one-year operating reserve, while also meeting some part of the two requests that have been made.

Commissioners Iseri and McKeever agreed with Vice Chair Munger. They both were prepared to vote for partial funding of the amounts requested to show First 5 California's support of these important programs, while also ensuring First 5 has a prudent reserve to meet its operational needs.

Ms. Miller asked Commissioners to remember that when funding decisions are made on current year dollars, some of the monies are actually reserved to fund three-year rollover spending commitments.

Ms. Perry said that First 5 California will do everything it can to mitigate harm and improve performance to reach the best outcome from whatever decision is made.

Commissioner Collis recommended moving forward with the DDS's FY 2010-11 funding request and to defer the request for FY 2011-12. He said the Commission needs to be proactive advocates for children 0 to 5 and not limit itself to only current options that are brought to the Commission, but rather look for other potential revenue options that are not on the table. At the same time, First 5 California should be part of the bridge solutions as proposed and recommended by the Legislature. Commissioner McKeever agreed with Commissioner Collis on deferring the DDS funding request for FY 2011-12. He recommended a motion that would authorize funding for half of the amount for both the DDS and HFP requests.

Ex Officio Commissioner Carney said taking the time to be really thoughtful in what the fundamental roles of the government are is consistent with what the fundamental challenge the Governor has outlined. He felt there was sufficient reserve to fulfill the current request, while still leaving a sufficient reserve. He thought it was important to look at programs that are already up and running for a population to which First 5 California is committed versus what would be reserved for something that may happen next year.

Vice Chair Munger said she understands that under California law, First 5 California cannot spend money in any year unless it had that money at the beginning of the year. That is why First 5 California needs money for a full year of its operational expenses.

Chair Kent said she does not agree with funding half of the DDS request as it would be far more difficult for DDS than it is for HFP. She said her first preference is to fully fund both requests as they are in the current year. Her second preference would be to fully fund the DDS program and then fund an up to amount for HFP. Vice Chair Munger was not comfortable in authorizing full funding for the DDS program. She felt if the funding requests from both DDS and HFP were to be approved for partial amounts, the DDS amount should reflect some type of cut to the requested amount as well. Commissioner Iseri was uncomfortable with fully funding the amount for DDS.

Commissioner Duterte said he would like to have a thoughtful discussion to prioritize those programs that make the biggest impact on direct services to children.

After further discussions with regard to First 5 California's funding balances and operational needs, it was determined that First 5 California could fund up to $101 million of the $131 million combined total requested from DDS and HFP without impinging on First 5 California's spending plan. Commissioner Iseri recommended a $5 to $10 million reduction to the requested amount. She also recommended a $20 million reduction to the HFP request. Commissioner Collis recommended that the Commission reconvene in a month to assess and determine how to handle the remaining $31 million of those funding requests.

PUBLIC COMMENT: None.

AMENDED MOTION/ACTION: Commissioner Collis moved to approve funding of up to $40 million in FY 2010-11 to provide funding to the Department of Developmental Services for new regional center services provided to new children ages 0 through 5 in the Early Start Program, the Prevention Program, and pursuant to the Lanterman Developmental Disabilities Services Act. The motion was seconded by Chair Kent.

VOTE: The motion was approved by a unanimous vote of the members present. This vote excluded Commissioner Minon who recused herself from this item due to a conflict of interest.

AMENDED MOTION/ACTION: Commissioner Collis moved to approve funding of up to $61 million to pay for health care premiums and related enrollment expenses for eligible children ages 0 through 5 in the Healthy Families Program from July 1, 2010, through June 30, 2011. The motion was seconded by Commissioner Duterte.

DISCUSSION: None.

PUBLIC COMMENT: None.

VOTE: The motion was approved by a unanimous vote of the members present. This vote excluded Commissioner Minon who recused herself from this item due to a conflict of interest.

MOTION/ACTION: Commissioner Duterte recommended an additional motion to come back within 30 days to review First 5 California's overall spending plan and the impact that the remaining $31 million may have on that spending plan. The motion was seconded by Vice Chair Munger.

DISCUSSION: David Panish, a consultant with Senator Steinberg's Office, expressed concern regarding the motion the Commission was making as it had very serious consequences for the programs that are operating on the current year budget.

After further deliberations over how to meet the total needs of all requests, Ms. Perry recommended that First 5 California postpone implementation of its Child Signature Program in order to allocate the additional $31 million to the HFP and DDS programs. Ms. Perry recommended the Commission continue with the Power of Preschool (PoP) and School Readiness programs and postpone the new Child Signature program for one year.

PUBLIC COMMENT: None.

VOTE: Commissioner Duterte consented to withdraw this motion.

MOTION/ACTION: Chair Kent moved to postpone the implementation of the Child Signature Program in FY 2011-12 so that $31 million additional dollars may be dedicated to the Healthy Families Program and the DDS Program, bringing the totals for those programs to $50 million for DDS and $81.4 to MRMIB. The motion was seconded by Vice Chair Munger.

VOTE: The motion was approved by a unanimous vote of the members present. This vote excluded Commissioner Minon who recused herself from this item due to a conflict of interest.

MOTION/ACTION: Commissioner Duterte moved to authorize staff to transfer funds as necessary or appropriate from the various accounts to the unallocated account to meet the obligations just approved by the Commission for MRMIB (Healthy Families) and DDS. The motion was seconded by Chair Kent.

VOTE: The motion was approved by a unanimous vote of the members present. This vote excluded Commissioner Minon who recused herself from this item due to a conflict of interest.

Agenda Item 9 – First 5 California Power of Preschool Bridge Program
Diane Levin, Deputy Director of Program Management, requested Commission approval to fund the Power of Preschool (PoP) Bridge Program for an additional year.

The PoP Bridge extension would allow the program to continue serving approximately 25,000 children ages 0 through 5. PoP Bridge builds on what First 5 California knows about research and best practices in preschool and infant/toddler care. It also brings First 5 California state and county commissions together in providing quality services to families across the state.

Ms. Levin expressed the importance of investing upfront in quality early learning experiences that have been proven to have greater payoffs for young children that impact them for the rest of their lives. Remedial interventions that take place after an achievement gap has already developed in an attempt to reduce those gaps are not only far more costly, but are seldom effective.

The PoP Bridge Program leverages funds from other sources. First 5 California's $14.4 million investment leveraged $90.8 million in additional funds from county commissions, Head Start, Title 1, Title 5, and the Child Care Food Program.

A 2008 PoP meta-analysis revealed the following:

- Children demonstrated strong school readiness levels
- Programs displayed high quality learning environments
- Teachers possessed higher qualification levels
- Programs reported improved parenting skills and knowledge

In 2008, the RAND Corporation completed a study that found Power of Preschool programs are operating at a higher level of quality than other publicly funded programs in the state and nation.

MOTION/ACTION: Commissioner Duterte moved to approve extension of the Power of Preschool (PoP) Program from July 1, 2011, through June 30, 2012, and corresponding bridge funding of up to $19 million. The motion was seconded by Chair McKeever.

DISCUSSION: Commissioner McKeever asked what the outcome would be if the funding was not continued. Ms. Levin explained that those 25,000 children would be in jeopardy of losing those services along with approximately 2,000 teachers and other providers who would lose their jobs.

PUBLIC COMMENT: Several individuals expressed the importance of continuing the PoP Bridge Program and encouraged the Commission to stay focused on the priorities and mission of First 5 California and the commitment to its Strategic Plan.

VOTE: The motion was approved by a unanimous vote of the members present.

Agenda Item 10 – Annual Report
Vonnie Madigan, Deputy Director for Results and Evaluation, requested the Commission approve the First 5 California Annual Report for Fiscal Year 2009-10.

MOTION/ACTION: Commissioner Collis moved that the Commission approve the First 5 California Fiscal Year 2009-10 Annual Report and its submission to the Governor, the Legislature and county commissions, as required by statute. The motion was seconded by Vice Chair Munger.

DISCUSSION: None.

PUBLIC COMMENT: None.

VOTE: The motion was approved by a unanimous vote of the members present.

Agenda Item 11 – Consent Calendar
The Commission considered approval of the consent agenda items:

- October 20, 2010, Commission Meeting Minutes
- Ratification of the following agreements: CFF 7223 A1, 7242, 7228, and Purchase Order Numbers: CFF 4536 A4, 4608 A1, 4700, 4706, 4711, 4714

MOTION/ACTION: Commissioner Collis moved that the Commission approve the consent calendar. The motion was seconded by Vice Chair Munger.

DISCUSSION: None.

PUBLIC COMMENT: None.

VOTE: The motion was approved by a unanimous vote of the members present.

Agenda Item 12 – Adjournment
Commissioner Collis moved for adjournment of the commission meeting. The motion was seconded by Commissioner Duterte and was approved by a unanimous vote of the members present.

The next scheduled Commission Meeting is April 20, 2011, in Sacramento.